

COCOM Document No. 3528

May 12, 1959

COORDINATING COMMITTEE

7e

MEMORANDUM BY THE UNITED STATES DELEGATIONONDIVERSION OF ARGENTINE BORAX

(Relating to Agenda Item 3 b for May 19 Meeting of Subcommittee on Export Controls - COCOM Document 3486).

INTRODUCTION:

1. The following successful diversion of Argentine borax indicates the rapidity with which Bloc purchasing agents exploit the development of exportable surpluses in non PC's. The diversion illustrates again the complicated pattern of Bloc procurement involving the use of numerous intermediaries in many countries, the establishment of "front" firms, and the methods used by culpable firms to conceal their part in illicit transactions. Argentina has developed an adequate system of controls over its export of borax subsequent to the diversions reported herein; however, there are certain points to be extracted from this case which might prove helpful in the development of PC enforcement techniques.

a) The development of strategic mineral resources in certain relatively underdeveloped areas has increased rapidly during recent years. While such non-member countries may be quite willing to exercise controls over export of such commodities, they may be unaware of the full strategic importance of their new export items or inexperienced in the application of trade controls. The United States has endeavored to keep currently informed on economic and foreign trade developments affecting such countries which may give rise to new strategic control problems. The United States and certain member governments have followed the practice of reporting such problems to the Committee or Subcommittee, with suggestions for corrective actions (e.g., adoption of IC/DV, assistance in making end-use checks). Member governments able to make contributions in this field are encouraged to do so.

b) In the case under discussion, diversion to Communist China was effected via Gdynia, believed still to be an important link in diversions to Communist China. The United States has sought to inform non-member countries of the necessity for careful screening of strategic exports to Poland and for obtaining official Polish assurances as to their domestic use, in keeping with the COCOM procedure concerning International List I shipments to Poland.

c) It may be noteworthy that the establishment and/or use of "front" firms or letter drops in Liechtenstein appear to have been used increasingly by East-West trade operators during recent years. Applications to export to Liechtenstein therefore bear thorough scrutiny. In this connection the limited domestic requirements of Liechtenstein is a factor to be borne in mind by licensing authorities in licensing strategic exports to Liechtenstein.

CASE SUMMARY:

2. Late in 1957, the Chinese Communist Trade Mission in London contacted a firm in Brussels (A), with a request to obtain large quantities of Argentine borax for shipment to Communist China. The Brussels firm (A), which apparently operated strictly as a commission agent in this transaction, turned the order over to a firm in Frankfurt/Main (B), one of the several firms owned by a German businessman (C).

SECRET

- 2 -

COCOM Document No. 3528

The latter (C) and the Brussels firm (A) had previously worked together on illegal East-West trade, including an attempted diversion of United States borax. Another Frankfurt firm (D) also owned by the German businessman (C), was then brought into the operation, presumably to protect the reputation of the more firmly established Frankfurt firm (B). Frankfurt firm (D) turned the order over to a Liechtenstein firm (E) located at Mauren, Liechtenstein. The latter firm was established in 1953 as a relatively small trading company but it is neither listed in telephone directories nor in the Adressbuch der Schweiz. It is possible that it is being used as a "front" or letter drop for the firms owned by the German businessman (C). Despite this apparent anonymity, the Liechtenstein firm (E) was the firm responsible for conducting the negotiations with the Buenos Aires producer and exporter (F) which led to the borax diversions. On the Argentine end, an East-West trader, believed to be an Argentine businessman (G), who is partner and manager of an Argentine firm (H), was the Liechtenstein firm's (E) contact with the Argentine producer and exporter (F). The complexity of this arrangement provided the Chinese purchasers with at least five intermediaries between themselves and the Argentine exporter.

3. After preliminary negotiations had been concluded, the Frankfurt firm (D) arranged for the Brussels firm (A) to open a revolving letter of credit for \$72,500 in favor of the Liechtenstein firm (E) to cover 500-ton shipments of borax. The Liechtenstein firm (E) purchased the borax at \$101 per ton CIF Gdynia from the Argentine firm (F), sold it at \$145 per ton to the Brussels firm (A), which in turn sold it to the Communist Chinese at \$150 per ton. Thus the Liechtenstein firm (E) and presumably the firms owned by the German businessman (C) realized about \$22,000 and the Brussels firm (A) about \$2,500 on each shipment. The Liechtenstein firm (E) or the Frankfurt firm (D) arranged for payment by the Argentine firm (F) to be made through a bank in Zurich, to a bank in Buenos Aires. The Argentine firm (F) applied for and received an export license for the delivery of at least 1000 tons of borax to the Netherlands. Arrangements were made for the delivery of at least 1000 tons of borax to the Netherlands, and to have the shipments loaded aboard Polish Ocean Lines vessels, ostensibly destined to the Netherlands but actually destined for Gdynia and thence to Communist China. The first two shipments (505 and 502 tons) were made aboard the Slovakia and the Piast on January 3, 1958, and January 29, 1958, respectively. A third shipment of approximately 500 tons is believed to have been made aboard the Michiewicz on April 5, 1958. Transshipment to Communist China was apparently effected at Gdynia.

COMMENT:

4. These shipments might have been accomplished with less effort on the part of the Chinese, but Argentine controls to the Bloc were being reexamined at the time, and great caution probably appeared warranted. Argentina first became an exporter of borax in 1957. During that year, Bloc purchases totaled 3,450 tons while exports to all other areas were only 300 tons. In December, 1957, Argentina placed a temporary suspension on licensing to the Bloc, which undoubtedly accounts for the complexity of the above transactions. In all, the Bloc was able to obtain at least 6,250 m. tons of borax from Argentina through direct, legal shipments and the above described diversionary operation between 1957, when Argentina first developed exportable surpluses of borax, and April, 1958, when more stringent controls were placed in effect.

5. It might be noted that Argentina did not require import certificates or delivery verifications for exports of borax at the time the diversions took place. (IC/DV procedures have subsequently been adopted by Argentina for borate exports). The borax was not offloaded until it reached Gdynia. Financing was accomplished through a Swiss bank by a Liechtenstein firm. The goods were undoubtedly shipped from Gdynia to China aboard a Polish vessel, thus avoiding application of voyage licensing or shipping controls which were then in force in member countries. The same type of operation could be accomplished with goods originating in any country not cooperating in the IC/DV procedure. Such transactions are facilitated when vessels are engaged in regular runs between Free World countries and the Bloc, as is the case with Argentina.

SECRET